

## 1350.0 - Australian Economic Indicators, Jan 2005

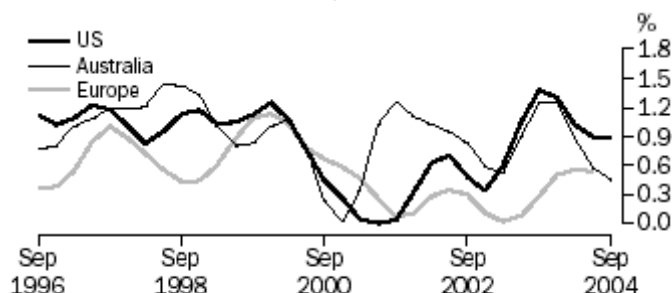
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### Feature Article - Quarterly Review

#### OVERVIEW

Growth during the September quarter 2004 was mainly from the domestic sector, with gross national expenditure growing 0.7%. Exports were down 0.1% and there was a 1.8% increase in imports in trend chain volume terms. Australia's September quarter GDP growth of 0.5% is comparable to other major economies and remains below the US growth of 0.9% (graph 1). During 2003 most developed countries were showing accelerating growth in GDP but in the US and Australia growth has slowed in the last three quarters.

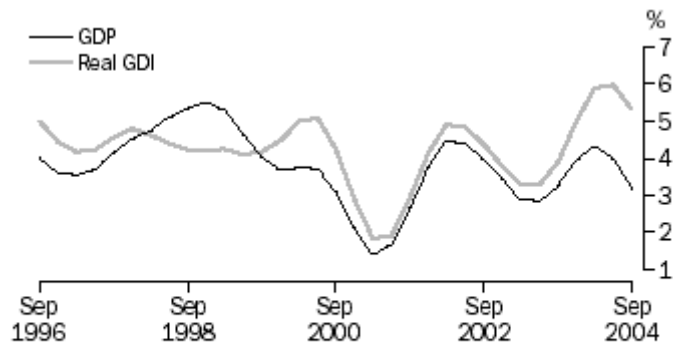
#### 1 INTERNATIONAL ECONOMIC GROWTH, GDP VOLUME TREND, Quarterly %change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0 & Organisation for Economic Co-operation and Development

The chain volume measure of GDP is essentially a measure of the volume of output produced within Australia. However, the total real income that Australians derive from this production also depends on the volume of imports able to be purchased from the proceeds of Australia's exports to the rest of the world. Over the past year, Australia's terms of trade have increased by 11.0% so a given volume of exports will enable Australians to purchase a higher volume of imports than was the case in September quarter 2003. Real gross domestic income (GDI) measures the purchasing power of the total incomes generated by domestic production, taking changes in the terms of trade into account. Through the year to September quarter 2004, trend real GDI has increased by 5.3% compared with an increase of 3.2% in the trend chain GDP volume. See also graph 21 below.

#### 2 CHAIN VOLUME OF GDP AND REAL GDI, Trend-Annual % change



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0

Most industries made positive contributions to production chain volume measures in the September quarter 2004 (graph 3). The strongest quarterly increases were from **cultural and recreational services** (up 1.7%), **retail trade** (up 1.4%), **health and community services** (up 1.3%) and **communication services** (up 1.3%). Four industries declined: **agriculture** (down 1.6%), **accommodation, cafes and restaurants** (down 1.4%), **manufacturing** (down 0.6%) and **personal and other services** (down 0.2%).

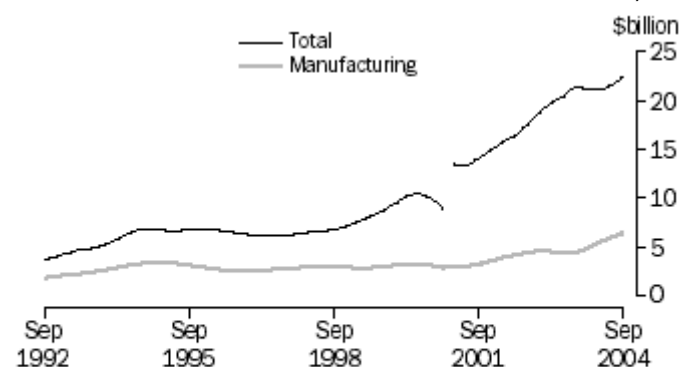
### 3 GROSS VALUE ADDED BY INDUSTRY, Trend-Quarterly %change-September Qtr 2004



Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0

**Company profits before income tax** surged to a record of \$22.5b (up 4.4%) in the September quarter. The biggest increases were in **mining** (up 11.9%), **manufacturing** (up 7.7%), **retail trade** (up 4.0%) and **property and business services** (up 4.0%).

### 4 COMPANY PROFITS BEFORE INCOME TAX, Trend



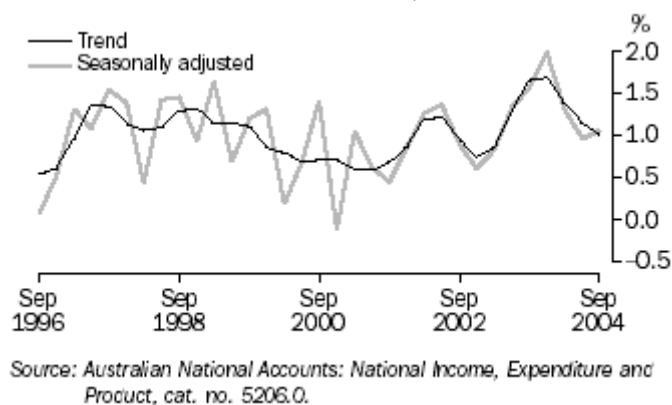
Note: There is a trend break between Dec 2000 and Mar 2001

Source: Business Indicators, Australia, cat. no. 5676.0.

## CONSUMPTION

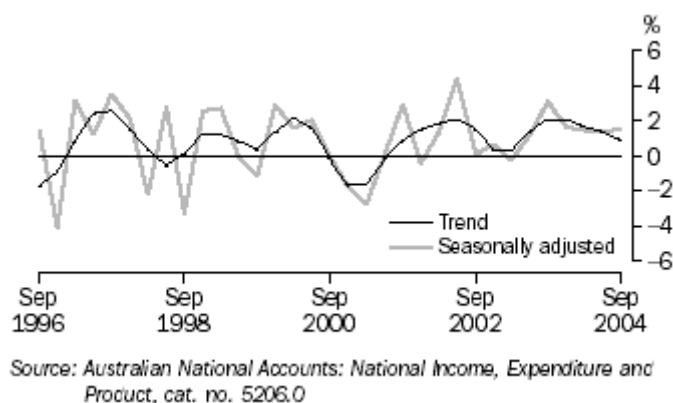
In the September quarter 2004 the chain volume measure of **household final consumption expenditure (HFCE)** grew by 1.0% in trend terms and 1.1% in seasonally adjusted terms (graph 5). The strongest trend growth rates were recorded for **clothing and footwear**, up 2.3%, **furnishings and household equipment**, up 1.5% and **food**, up 1.5%. Household purchases from **hotels, cafes and restaurants** fell 0.6% in trend terms, and was the only component to show a fall.

5 HOUSEHOLD FINAL CONSUMPTION EXPENDITURE, Chain volume measure-Quarterly %change



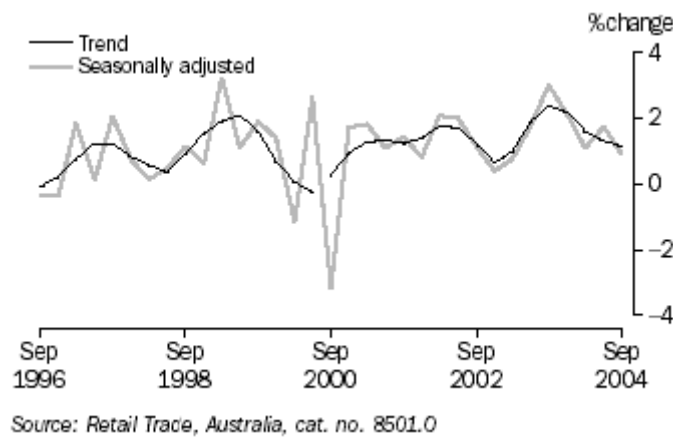
The trend chain volume measure of **national general government final consumption expenditure (GFCE)** excluding defence rose 0.9% in the September quarter 2004 (graph 6). The trend rose 6.0% between September 2003 and September 2004. The trend chain volume measure of **defence final consumption expenditure** rose by 0.2% in the September quarter, and fell 1.6% between September quarter 2003 and September quarter 2004.

6 GOVERNMENT FINAL CONSUMPTION EXPENDITURE, (Excluding defence) Chain volume measure-Quarterly %change

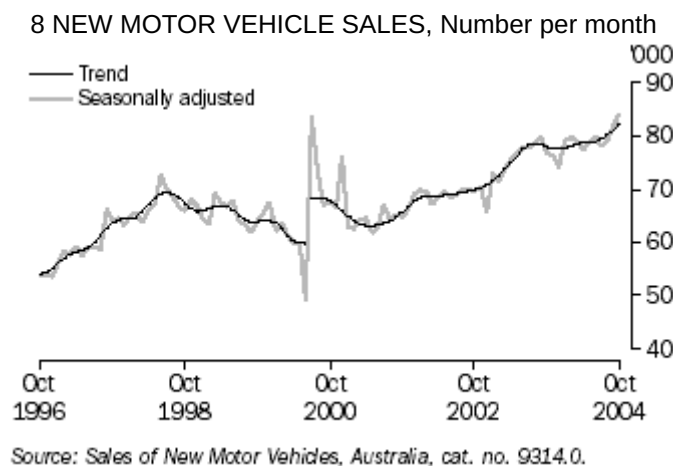


In the September quarter 2004, **retail turnover** rose by 1.1% in trend chain volume terms, following an increase of 1.3% for the June quarter 2004. Five of the seven industries showed increases this quarter, with the largest rises recorded in **clothing and soft good retailing** (up 2.1%), **department stores** (up 1.7%) and **household good retailing** (up 1.7%). **Hospitality and services** fell by 1.0% and **recreational good retailing** fell 0.1%.

7 RETAIL TURNOVER, Chain volume measure, Trend-Quarterly %change



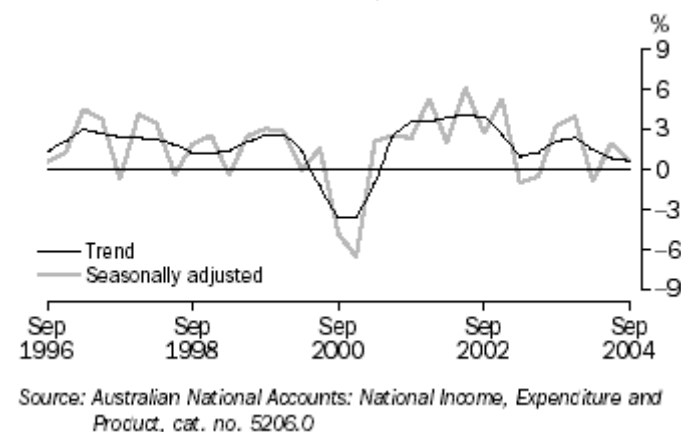
The trend estimate for **sales of new motor vehicles (excluding motor cycles)** rose by 1.2% from September 2004 to 82,234 in October 2004 (graph 8). When compared with October 2003 (77,967) the trend estimate has shown an increase of 5.5%. Sales of both passenger vehicles and sports utility vehicles also recorded increases of 1.2% over the last month. The trend estimate for sales of sports utility vehicles has been increasing continually since September 2003, recording a total increase of 21.4% since this time. All states and territories recorded increases in the trend estimate for sales of new motor vehicles in October 2004.



## INVESTMENT

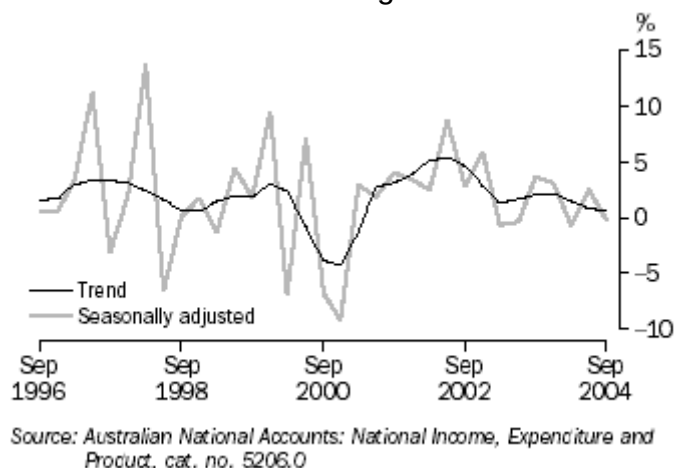
The trend chain volume measure of **total gross fixed capital formation (GFCF)** rose by 0.6% in the September quarter 2004, following rises in the previous thirteen quarters (graph 9). This had been preceded by four quarters of decline. The trend is now 5.4% above that of the September quarter 2003. The seasonally adjusted estimate rose 0.6% in the September quarter 2004.

### 9 TOTAL GROSS FIXED CAPITAL FORMATION, Chain volume measure-Quarterly %change



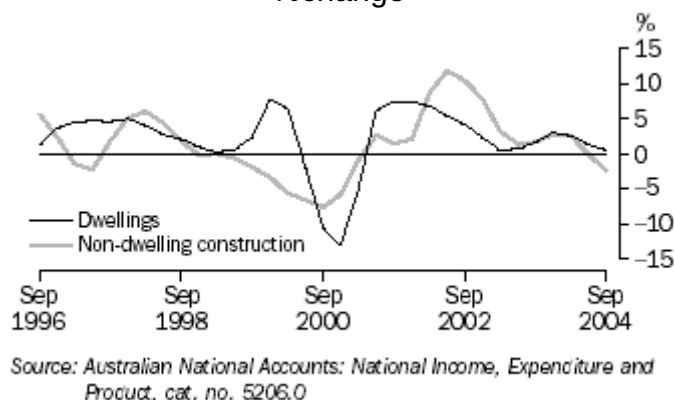
The trend chain volume measure of **total private gross fixed capital formation** rose by 0.6% in the September quarter 2004 (graph 10), while **public gross fixed capital formation** rose by 0.7%. In the **private sector**, **dwellings** rose by 0.5%, **non-dwelling construction** fell by 2.5%, and **machinery and equipment** rose 3.1%. **Livestock** fell by 0.3%, **intangible fixed assets** rose by 3.1% and **ownership transfer costs** fell by 7.3%. For public GFCF, **public corporations** rose by 0.4%, **national general government** rose by 1.7%, and **state and local general government** rose by 0.7%.

#### 10 PRIVATE GROSS FIXED CAPITAL FORMATION (PGFCF), Chain volume measure-Quarterly %change



Trend **total GFCF for private dwellings** rose by 0.5% in the September quarter 2004 (graph 11). **New and used dwellings** rose by 0.4% while **alterations and additions** rose by 0.5%. Expenditure on **non-dwelling construction** fell by 2.5%. There was a 2.1% decrease in **new engineering construction** and a 2.3% fall in **new building**.

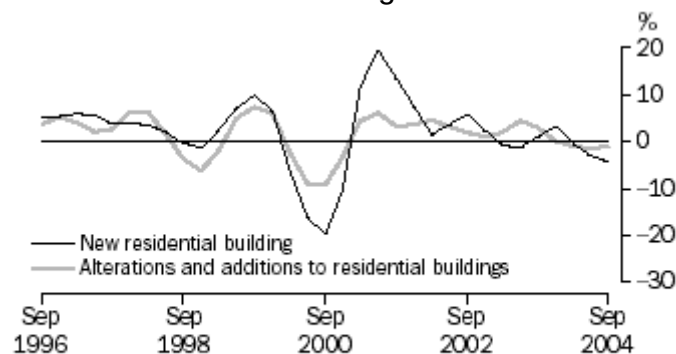
#### 11 PRIVATE GFCF: SELECTED COMPONENTS, Chain volume measure, Trend-Quarterly %change



The trend chain volume measure of **the value of building approvals** fell by 1.6% in the September quarter 2004. There was a 4.1% fall in **total residential building** while **non-residential building** rose by 2.6%. **New residential building** fell 4.6% while **alterations and additions to residential buildings** fell 1.1% (graph 12). The fall in **new residential building** was due to a 4.0% fall in **new houses** and a fall of 5.8% in **new other residential building**.

Some building approvals do not proceed, and there is a lag of a few months until work occurs for those that do. In turn, interest rate changes influence approvals (see the feature article on the relationship between changes in interest rates and building approvals in the November 2001 issue of AEI).

## 12 VALUE OF RESIDENTIAL BUILDING APPROVALS, Chain volume measure, Trend-Quarterly %change

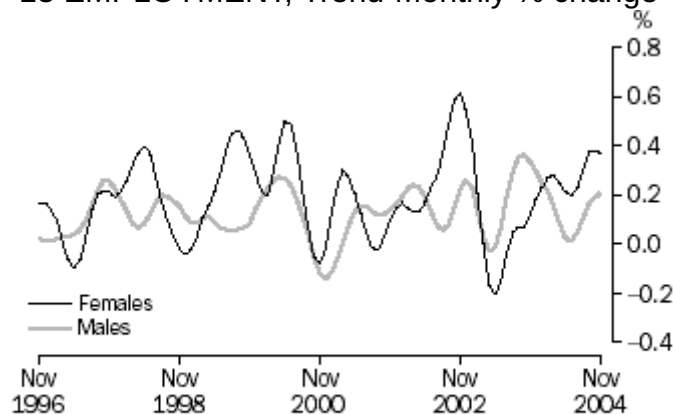


Source: *Building Approvals, Australia*, cat. no. 8731.0

## LABOUR MARKET

In November 2004, the trend total number of **employed persons** increased 0.3% from the previous month to 9,770,700. **Female employment** rose 0.4% to 4,376,500 while **male employment** rose 0.2% to 5,394,200 (graph 13). **Full-time employment** rose 0.2% to 6,995,100 while **part-time employment** rose 0.4% to 2,775,600.

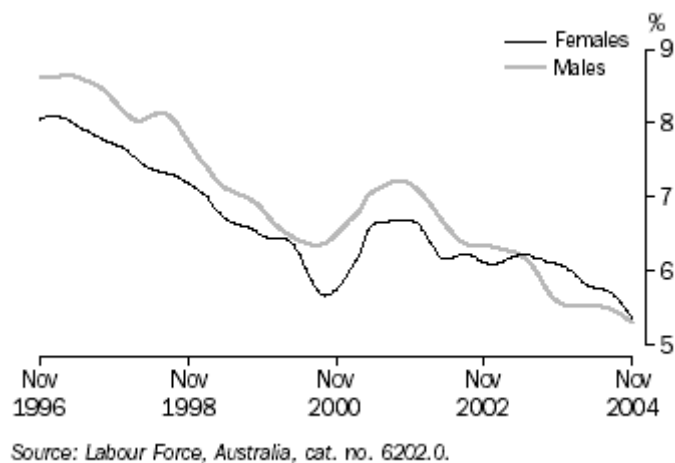
## 13 EMPLOYMENT, Trend-Monthly % change



Source: *Labour Force, Australia*, cat. no. 6202.0.

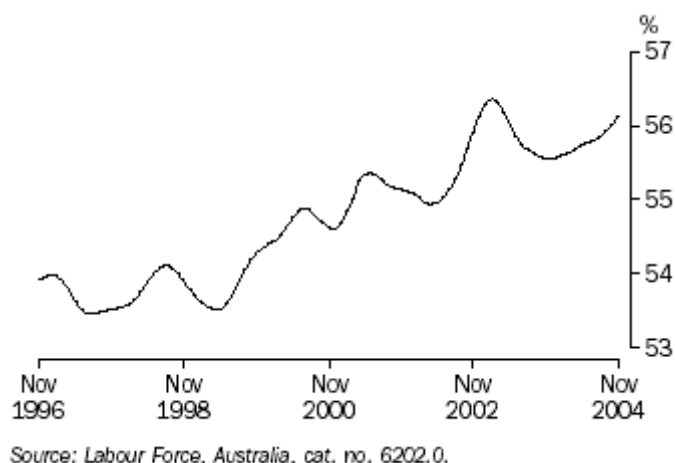
In November 2004, the trend **unemployment rate** fell 0.1 percentage point to 5.3%. This is the lowest unemployment rate since the series began in February 1978. The **male unemployment rate** remained steady at 5.3% and the **female unemployment rate** fell 0.1 percentage point to 5.4% (graph 14). In November 2004 the **number of persons looking for full-time work** fell 1.7% to 384,500 and the **number of persons looking for part-time work** fell 0.1% to 164,100.

## 14 UNEMPLOYMENT RATE, Trend



In November 2004, the overall **participation rate** rose 0.1 percentage point to 63.7%. The **female participation rate** rose 0.1 percentage point to 56.1% (graph 15) while the **male participation rate** remained steady at 71.5% (graph 16).

15 FEMALE PARTICIPATION RATE, Trend



16 MALE PARTICIPATION RATE, Trend



The trend chain volume measure of **market sector GDP per hour worked** fell by 0.3% in the September quarter 2004 (graph 17). **Hours worked in the market sector** rose by 0.8% and **market sector GDP** rose 0.4%. Market sector GDP per hour worked is a measure of labour

productivity and in trend terms this is the first fall since the December quarter 2000, after showing no growth in the June quarter 2004. Note however that this measure is also affected by the contribution of capital and other factors to changes in production as well as changes in the overall quality of labour input.

#### 17 LABOUR PRODUCTIVITY (PROXY) TREND, GDP Market sector, Chain volume measure-Quarterly %change

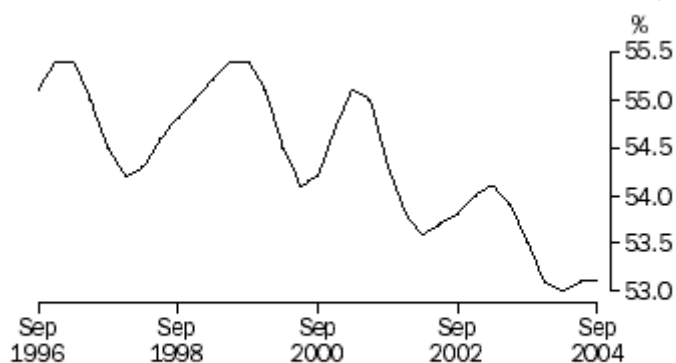


Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0

## INCOME

In the September quarter 2004, the **wages share of total factor income** was steady at 53.1% (graph 18). **Compensation of employees** rose by 1.5%, reflecting a rise of 0.5% in **average earnings** and a 1.0% rise in the number of **wage and salary earners**.

#### 18 WAGES SHARE OF TOTAL FACTOR INCOME, Trend

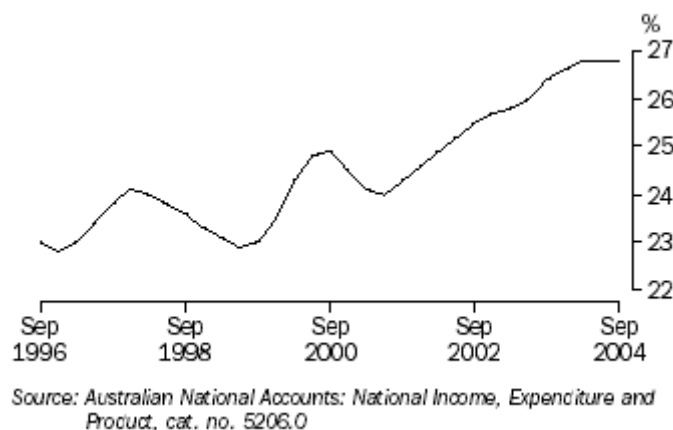


Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0

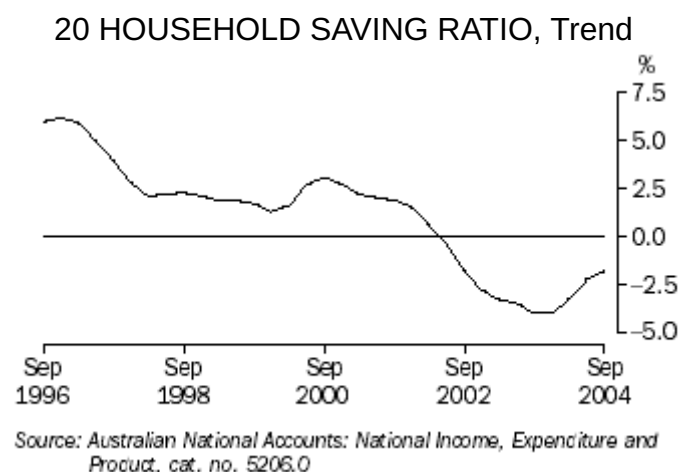
In the September quarter 2004, the **profits share of total factor income** was steady at 26.8% (graph 19). This profit measure comprises the gross operating surplus (GOS) of financial and non-financial corporations, which rose by 1.4% in the September quarter following a 1.7% rise in the June quarter 2004.

#### 19 PROFITS SHARE OF TOTAL FACTOR INCOME, Trend





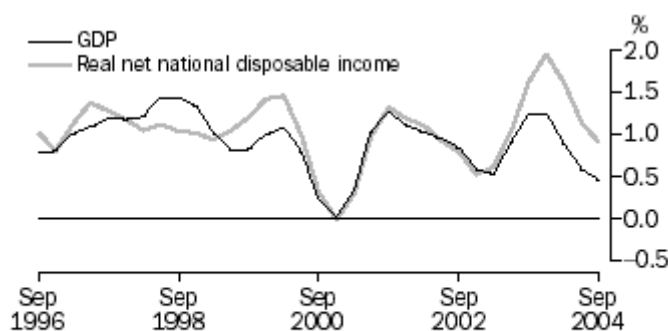
The **household saving ratio** was negative in the September quarter 2004, implying that household consumption was greater than household disposable income. In trend terms the ratio was  $-1.8\%$  (graph 20). Although seasonally adjusted household saving has been negative over the past two years, net national saving has been positive over the same period. Caution should be exercised in interpreting the household saving ratio in recent years, because major components of household income and expenditure may still be subject to significant revisions. The impact of these revisions on the saving ratio can cause changes in the apparent direction of the trend.



During the September quarter 2004 **trend real net national disposable income** rose by  $0.9\%$ , compared to the increase in the **trend chain volume measure of GDP** of  $0.5\%$  (graph 21). **Real net national disposable income** (RNNDI) is a broad measure of economic well-being. This measure adjusts the chain volume measure of GDP for the terms of trade effect, real net incomes from overseas and consumption of fixed capital. In recent quarters RNNDI has been growing faster than GDP due to the strong growth in the terms of trade.

For further details about RNNDI see the article in the April 2002 issue of AEI.

## 21 GDP AND REAL NET NATIONAL DISPOSABLE INCOME, Chain volume measure, Trend-Quarterly %change



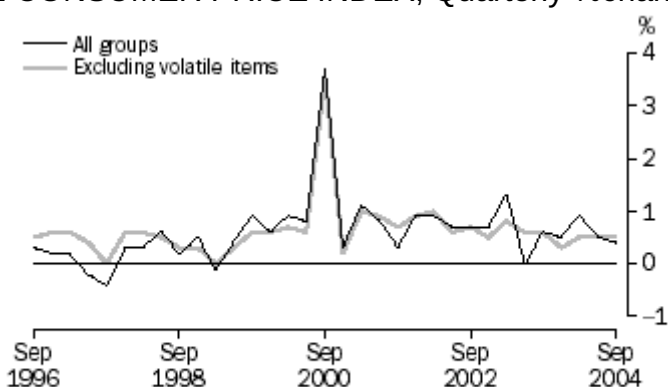
Source: Australian National Accounts: National Income, Expenditure and Product, cat. no. 5206.0

## CONSUMER PRICES

This commentary refers to original estimates unless otherwise specified.

In the September quarter 2004, the all groups **consumer price index** (CPI) rose by 0.4%, compared with a rise of 0.5% in the June quarter 2004 (graph 22). The major contributors to the increase at the group level were **housing** (up 1.4%), **transportation** (up 0.8%), **alcohol and tobacco** (up 0.9%) and **recreation** (up 0.5 %). The **food** (down 0.6%) and **health** (down 0.7%) groups provided the most significant offsetting price decreases.

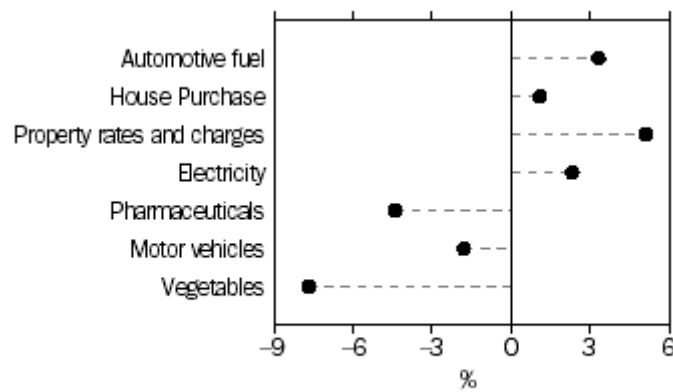
22 CONSUMER PRICE INDEX, Quarterly %change



Source: Consumer Price Index, Australia, cat. no. 6401.0.

Graph 23 shows the major contributors to the change in the CPI for the September quarter. The 3.3% rise in **automotive fuel** contributed over 0.2 index points to the rise in the CPI. The 1.1% increase in **house purchase** contributed 0.14 index points to the rise in the CPI and was driven by increasing labour and material costs. The 7.7% price fall in **vegetables** was the second consecutive quarterly fall and was associated with abundant supplies of lettuce, tomatoes and seasonal winter vegetables. The 1.8% fall in **motor vehicles** was due to competitive pricing between dealers to clear stocks before new models arrive in December quarter and the offering of incentives such as bonus inclusions, drive-away deals and factory cash-back offers.

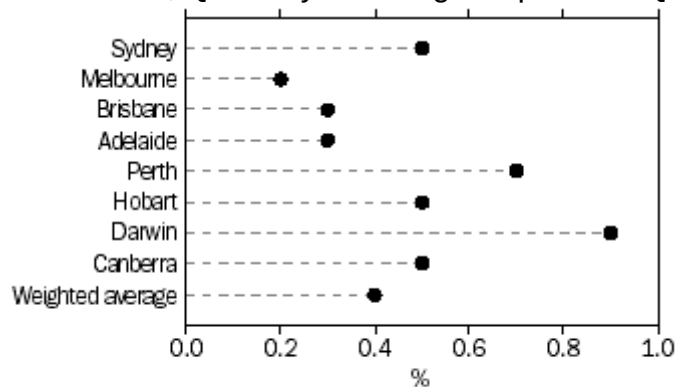
23 MAJOR CONTRIBUTORS TO CHANGE IN THE CPI, Quarterly % change-September Qtr 2004



Source: Consumer Price Index, Australia, cat. no. 6401.0.

At the All groups level, the September quarter 2004 CPI rose in all capital cities (graph 24). The increases ranged from 0.2% in Melbourne to 0.9% in Darwin. The higher result in Darwin was mainly due to that city recording increases in **recreation** and **alcohol and tobacco** which were well above the national average. The lower result in Melbourne was largely due to that city recording an increase in **transportation** costs which was half the national average and the equal largest fall in **food** prices (with Hobart) of all capital cities.

24 ALL GROUPS, Quarterly % change-September Qtr 2004



Source: Consumer Price Index, Australia, cat. no. 6401.0.

The national accounts **domestic final demand chain price index** rose 0.5% in the September quarter 2004, following a rise of 0.4% in the June quarter (graph 25). The **domestic final demand chain price index** is a broad based measure of price change and comprises final consumption and capital expenditure, for both private and public sectors. The chain price index for **final consumption expenditure** rose by 0.3% (by 0.3% for **households** and 0.1% for **general government**), while the chain price index for **gross fixed capital formation** rose by 0.9%, (by 1.0% for **private** and by 0.5% for **public**).

25 DOMESTIC FINAL DEMAND CHAIN PRICE INDEX, Quarterly %change

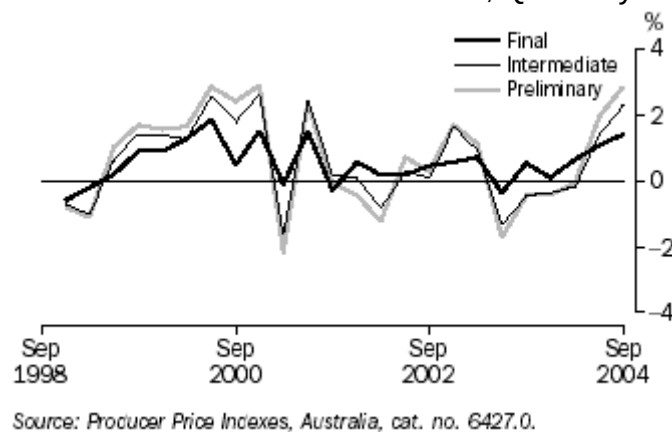


## PRODUCER PRICES.

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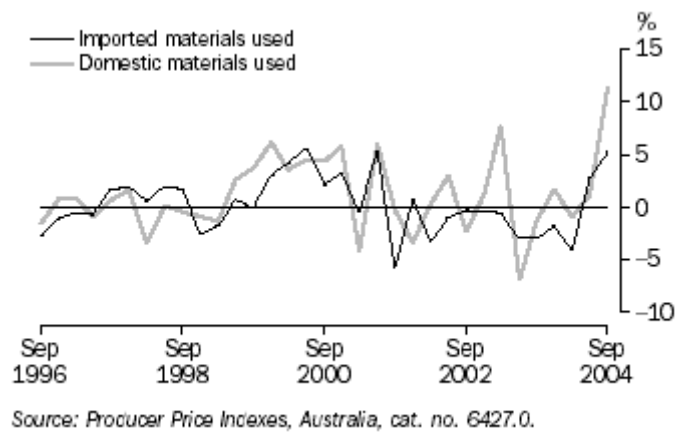
The **final (Stage 3) stage of production price index** rose by 1.4% in the September quarter 2004 (graph 26). For the final (Stage 3) index, there was a rise of 1.4% in domestic commodities and a 1.2% rise in imported commodities due to exchange rate driven price rises for both consumer and capital goods. The **intermediate (Stage 2) stage of production index** rose by 2.3%, due to a rise of 2.0% in the domestic index and a 4.3% rise in the imports index. The **preliminary (Stage 1) of production producer price index** rose by 2.9%, due to a rise of 2.4% in the domestic index and a rise of 5.5% in the imports index. The depreciation of the Australian dollar against the US dollar in the September quarter has resulted in an increase in all three stage of production indexes. The impact of the global rise in the price of crude oil can also be seen across all three indexes.

26 STAGE OF PRODUCTION INDEXES, Quarterly %change



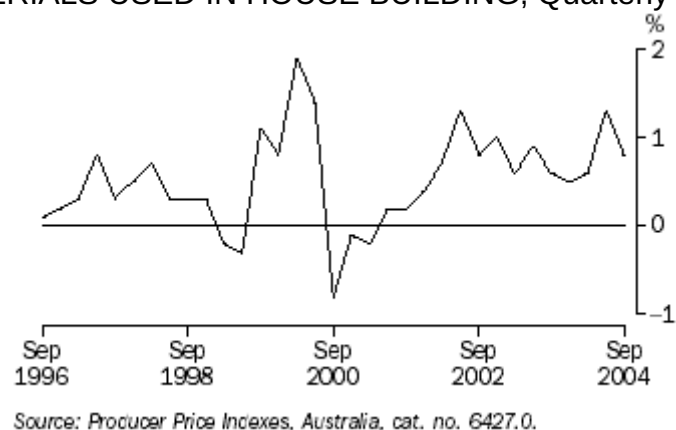
In the September quarter 2004, the **price index of materials used in manufacturing industries** rose by 7.9% (graph 27). This was the highest quarterly increase since December quarter 1990. Increases in the price of crude oil (both imported and domestic), sheep and lambs, iron and steel, iron ore mining, and cattle and calves were the main contributors to the quarterly result. Price decreases for wheat and meslin, and electricity provided some offsets to these increases.

27 MANUFACTURING INDUSTRY PRICE INDEXES, Quarterly %change



The **price index for materials used in house building** rose by 0.8% in the September quarter 2004 (graph 28), reflecting price increases for a range of materials. The most significant contributors to the increase were reinforcing steel, steel beams and sections, concrete tiles, clay bricks, and cupboards and fittings. Small offsetting price decreases were recorded for this index, with the most significant being ceramic tiles, and aluminium doors and windows. All state capital city indexes recorded increases for the materials used in house building price index in the September quarter 2004, ranging from 0.5% in Sydney to 2.1% in Hobart.

28 MATERIALS USED IN HOUSE BUILDING, Quarterly %change



The **export price index** rose by 6.9% in the September quarter 2004 (graph 29), following an 8.4% increase in the June quarter 2004. Increases were registered this quarter for the majority of commodities, with the most significant contributors being coal and semi-coke, crude petroleum oils, frozen beef and manganese ores and concentrates.

The **import price index** rose by 2.6% in the September quarter 2004 (graph 29), following a 4.1% increase in the June quarter 2004. Contributing most to the increase were crude petroleum oils and other fuel oils and related products, due to world prices, and aircraft and motor vehicle parts. The increases were partially driven by the depreciation of the Australian dollar against all major currencies. The most significant offsetting price decreases were observed for colour televisions and monitors, and communication transmission apparatus.

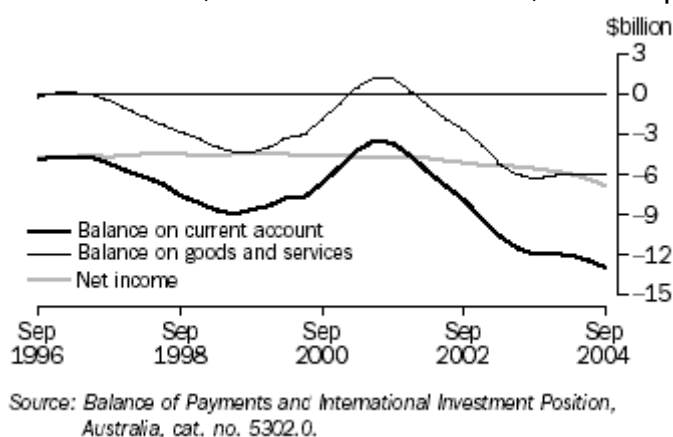
29 EXPORT AND IMPORT PRICE INDEXES, Quarterly %change



## INTERNATIONAL

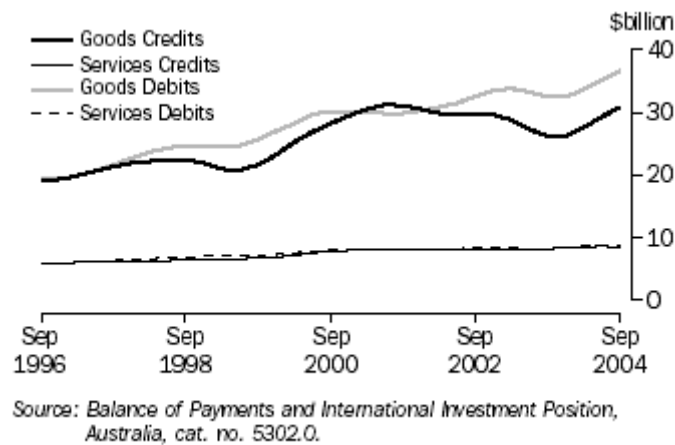
In the September quarter 2004 the **trend current account deficit** was \$13.0b. This was an increase of \$0.6b on the June quarter 2004 (graph 30). The main contributors to the increase in the deficit were **goods debits**, which rose \$1,429m (4%), **income debits** which rose \$712m (7%), **services debits**, which rose \$135m (2%) and **services credits** which fell \$35m, partially offset by increases in **goods credits** of \$1,526m (5%), and **income credits** of \$205m (5%). The trend estimate of the **net income deficit** increased \$0.5b to \$6.8b.

### 30 CURRENT ACCOUNT, MAIN AGGREGATES, Current prices, Trend

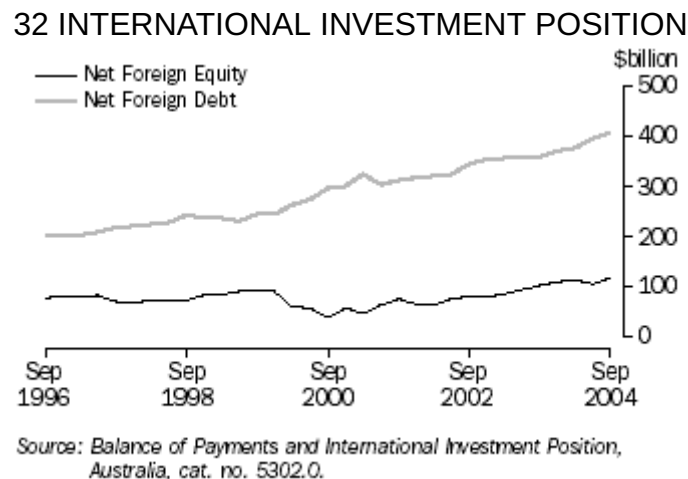


The main contributor to the balance on goods and services is goods. The value of goods that Australia imports (debits) has reached \$36.5b in the September quarter 2004, while goods exported (credits) rose to \$30.8b, resulting in an overall increase in the deficit on goods and services for Australia of \$5.7b.

### 31 BALANCE OF PAYMENTS, Goods and Services-Trend

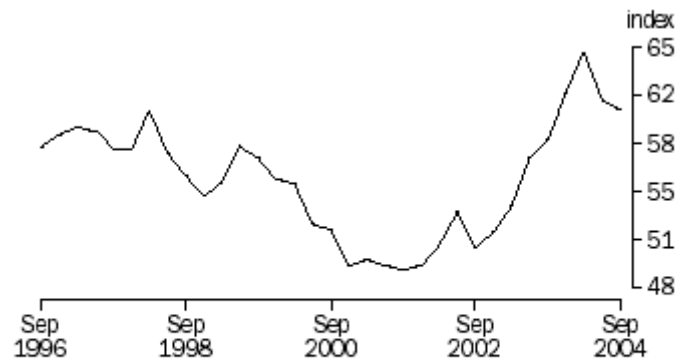


Australia's net international investment position rose \$25b to a net liability of \$524b. Net foreign debt was \$406b, an increase of \$13b, mostly due to net debt inflows of \$17b offset by exchange rate changes of -\$4b, consistent with the appreciation of the Australian dollar between 30 June and 30 September 2004. Net equity rose \$12b, to a net liability of \$117b.



Graph 33 shows the Trade Weighted Index (TWI) of the value of the \$A. In the September quarter 2004 the quarterly average TWI fell to 60.6 (from 61.2 in the previous quarter). The period average exchange rate for the Japanese yen fell to 77.95 (from 78.30 in the previous quarter), while the period average exchange rate for the United States dollar fell to 0.7094 (from 0.7146 the previous quarter).

### 33 TRADE WEIGHTED INDEX OF VALUE OF THE \$A, May 1970=100



Source: *Balance of Payments and International Investment Position, Australia*, cat. no. 5302.0.

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